

Testimony
by
Larry McHugh
Chairman
University of Connecticut Board of Trustees
-June 23, 2014-

Co-Chairs, Ranking Members, and members of the Committee, thank you for inviting us here, and for all of your support of the University of Connecticut. My name is Larry McHugh and I am here today in my capacity as Chairman of the UConn Board of Trustees to report on the University's current year operating budget as required by Special Act 13-17.

With me today is UConn Trustee Tom Kruger, who chairs the Financial Affairs Committee of the Board of Trustees which provides oversight over the University's operating and capital budgets. Joining us as well is Provost Mun Choi and John Biancamano, Interim Chief Financial Officer.

Before I ask Tom to get into the specifics on the FY14 operating budget, I would like to provide you with a quick overview of how the Board of Trustees functions, the active oversight it exercises over the University and then give you an update on some of the exciting initiatives happening at the University and the Health Center made possible by your generous support. As you may know, I have been serving as a voluntary board member to either the Connecticut State University System or UConn since 1983.

First, above all, is the issue of oversight. This is a primary responsibility that I and this board take very seriously. As such, we are highly engaged and hands-on both as a full board and on the committee level when it comes to our role in setting and monitoring the policies and practices of the University. This is done to ensure that the board has a comprehensive understanding of the issues before us and a clear eye on how the University conducts its business. This allows the board to make well-informed decisions when it comes to approving University policies. Because it is in all of our interests to make certain that UConn is a good steward of the resources provided to it by the State of Connecticut and its citizens, our students, their families and external funding sources. This fiscal year, the full Board met thirteen times and its nine subcommittees met a total of fifty eight times. The Health Center's Board of Directors met six times and its seven subcommittees a total of thirty-four times.

Now I would like to share with you some of the positive things that your support has made possible.

The General Assembly's investments in UConn are the reason we are a top choice for Connecticut's high achieving students and ranked 19th among public research universities in the nation by *U.S. News*. A great deal of this student demand can be attributed to excitement generated by Next Generation Connecticut, but also to our incredible value, or the intersection between quality and cost, to our students and their parents. We are pleased to report that for the 2013-2014 academic year, Kiplinger's ranked UConn the 25th best value for in-state tuition among the top 100 public colleges.

While enrollments at the other private and public universities and colleges are on a downward trajectory, mirroring state and regional demographic trends, the opposite has been true at UConn. 444 more freshmen enrolled in Storrs and Regional campuses this year (a 10% increase). Additionally, total freshman applications across all campuses for fall 2014 have reached 32,151, an 11 percent increase over last year's number and the applicants are more diverse and more qualified than ever. The average SAT scores of incoming freshmen have jumped from 1028 in 1995 to the class of 2017's average of 1233, the number of valedictorians and salutatorians in last fall's incoming class increased from 40 in

1995 to 149, and 456 students enrolled in the highly selective Honors Program. With an average SAT score of 1413, last fall's incoming honors freshmen are the largest number of Honors Program students to enroll in UConn in a single year.

When students arrive at UConn, nearly all of them stay, with 94 percent of entering first-year students returning after their freshman year. The average time to graduation is 4.2 years, and UConn's graduation rates – including those of minority and economically disadvantaged students – are among the highest of any public research university in the nation.

Design will be completed for the first building of the Storrs Tech Park in fall of 2014 and construction will begin in the winter. Your investments have already leveraged private gifts totaling more than \$35 million from General Electric, Pratt & Whitney and United Technologies Corporation, and other corporate and non-profit partners with more gifts on the horizon.

In terms of *Next Generation Connecticut*, while the operating and capital funding from the state does not begin until FY15, we have nevertheless been very busy getting ready. Our academic plan, something all great universities re-visit every few years, was completed this spring (a copy was shared with you electronically) and the Master Plan process which will inform us on decisions to be made on our building program, is underway and scheduled to be completed in 2015.

And at the UConn Health Center, through the Governor's and the General Assembly's generous support of *Bioscience Connecticut*, the campus is in the midst of its most significant transformation since it was first chartered in 1961. We are building and improving facilities to better meet the needs of patients and an expanded number of learners—future doctors, dentists, scientists and other health care professionals. Construction has employed more than 2,251 people; 85% of all contracts totaling \$282 million dollars have been awarded to Connecticut companies; and we have significantly exceeded State requirements for small and minority, women's and disadvantaged business participation.

All construction projects are on-time and on-budget. We have torn down buildings to make way for the Jackson Laboratory, constructed two parking garages for patients and employees and are looking forward to opening a new Outpatient Pavilion at the start of the new year followed by the new hospital tower in early 2016.

Bioscience Connecticut is enabling us to bring world-class clinician scientists and researchers to the Health Center. Our research awards remain strong despite declining research funding nationally. Through May, research awards totaled \$81 million, \$4 million over the same period last year. We have submitted \$40 million of joint applications with our colleagues from JAX and to date have received \$3.7 million in funding related to these joint applications. We are hopeful additional awards will be granted in the future. These outstanding achievements exemplify how the Health Center will contribute to the Governor's and legislature's goals of long term, sustainable economic growth through bioscience research, innovation, entrepreneurship and commercialization.

Finally, the expansion of our Medical and Dental school classes began this year and will ramp up even faster once the facilities to support more students and faculty recruitment are completed.

I would now like to ask Tom Kruger to give you a quick update on our FY14 operating budget. After that, we would be happy to answer any questions.

Testimony
by
Thomas Kruger
Chairman
Finance Committee
University of Connecticut Board of Trustees
-June 23, 2014-

Co-Chairs, Ranking Members, and members of the Committee, thank you for inviting us here, and for all of your support of the University of Connecticut. My name is Tom Kruger and I am here today in my capacity as Vice-Chair of the Financial Affairs Committee of the UConn Board of Trustees and to report on the University's current year operating budget as required by Special Act 13-17. I will first discuss the Storrs and Regional Campuses budget and then focus on the Health Center.

Storrs & Regional Campuses

FY14 Budget

The FY14 budget has been challenging for the University. The University intends to use \$25.2 million from one-time funds to balance the Storrs & Regional campuses budget. This is a deficit resulting from a number of factors with the major driver being the reduction in our state appropriation of approximately \$32 million between FY08 and FY14 and other fixed costs.

Special Act 13-17 asks for some specific information such as the actual expenditures and revenues and status of budgetary reserves to date for the current fiscal year, and the estimated expenditures and revenues through the end of the current fiscal year. You will find this information on slides 22-31 of the PowerPoint attached to my remarks.

It is important to note that even with this additional funding, the University will still be wrestling with some difficult budgetary decisions. Since the *Next Generation Connecticut* operating budget is earmarked for new faculty and scholarships to meet the goals of the program, the University will still have to address its structural deficit. This will mean shared sacrifice and challenge us to do more with less. We will continue to work with our Board of Trustees and the administration to look at all areas to achieve savings and bring our budget into balance while protecting our core academic and research missions. None of this will be easy, but we will do our best to continue to provide the best academic and student services possible.

Health Center

FY14 Budget

Despite all the positive news you heard Larry speak of at the UConn Health Center, there are some financial challenges. Our financial health is a major driver of our ability to meet our goals of excellence in research, education and clinical care. The State has stepped up and funded the Health Center over the years and for that support we are grateful. But, as we look at that support adjusted for inflation, funding has been flat for over a decade, and during these tough economic times we have sustained reductions in patient care reimbursement, reductions in our State appropriated block grant (a

total of \$15m since FY13) and increases in other fixed costs. We receive only 23% of our revenue from the State of Connecticut; 77% comes from other revenue sources with nearly 43% coming from patient care.

While many health systems have further limited the care they provide to uninsured patients and those covered by Medicaid, we are delivering care to an increasing percentage of this population. In the faculty practice, the percent of Medicaid encounters grew from 17.5% in fiscal year 2012 to 19.2% in fiscal year 2013. If Medicaid payments were set at Medicare rates, this would have increased \$3.4 million to our bottom line. Hospital stays covered by Medicaid have also grown from fiscal year 2012 to 2013 from 23.1% to 25.7%, resulting in an \$8.5 million loss to the Health Center in FY13. Finally, the dental clinics continue to serve the Medicaid population with over 68% of total visits attributable to Medicaid.

In FY14, the Health Center anticipates a \$15.7 million deficit that will be funded with cuts to our capital spending; this is a short-term fix. Ongoing pressures on our operating and capital dollars cannot easily be resolved without consequences to the quality of our educational, clinical and research programs. To meet the challenges, the Health Center has initiated a number of initiatives that have already started.

The NEW UConn Health Center—UConn Health

We have developed a three-pronged approach that will get us to where we want to be and where we must be.

First, we continue to improve performance in all operating units of the Health Center. Last year we realized cost reductions and revenue enhancements totaling \$8 million that assisted us in reducing the shortfall for the year. Additional savings and revenue enhancements must be achieved, so we have contracted with an outside performance improvement firm, the Berkley Research Group, who has a team on the ground to work closely with all of our faculty and staff to find and implement efficiencies throughout the Health Center and enhance revenues.

Second, to be financially viable, especially in this new healthcare landscape, we must demonstrate improvements in health care delivery and strengthen our clinical volumes through targeted growth. These efforts will not only improve our bottom line, but will support our academic missions of research and teaching—as we better cover our fixed costs, we can reinvest in ourselves. To achieve this goal, we have focused on quality and safety.

Third, through new communications strategies, we are letting patients, referring physicians, industry and private donors know about the extraordinary improvements that are happening at the Health Center.

Additional detail as requested in Special Act 13-17 for the current fiscal year is attached to my testimony and can be found in the UConn Health update, the last attachment in our packet on pages 32-34.

I would like to close my remarks by expressing the University's gratitude to Governor Malloy and the General Assembly for including \$15 million in the University's FY15 appropriation for the first year of the *Next Generation Connecticut* initiative – the same funding level the General Assembly approved last session

Next Generation Connecticut will expand critical STEM activities at UConn and drive innovation, enhancing job creation and economic growth. With targeted strategic investments in facilities, faculty and students, UConn will be an increasingly vital STEM institution, fueling Connecticut's economy with new technologies, highly skilled graduates, new companies, patents, licenses, and high-wage STEM jobs. FY15 funding will allow us to hire 61 new faculty and establish the premier Connecticut STEM Honors Program which will award scholarships and Big Idea grants to attract top science, technology, engineering and math (STEM) students to UConn. In fact, in anticipation of FY15 funding, we are pleased to report that offers of employment have been made to most of the faculty who will join UConn in August, and scholarship offers to students were made in the Spring.

If fully funded over the 10-year period, *Next Generation Connecticut* will enable our State to compete effectively in the global marketplace, revive innovation, create jobs and provide a workforce that is prepared for the future. I believe that Connecticut is a great state and should have a top research university that leads scientific discovery and job creation. This year's funding gets us closer to that goal.

And at the UConn Health Center your support of \$16.8 million of funding in the FY15 budget will allow us to continue to hire clinician scientists and basic scientists. In FY13, the UConn School of Medicine grew its faculty by 15 members. Through May of FY14, we have grown by an additional 15 faculty and have several more joining us before the end of this fiscal year. Our faculty will allow us to deliver on the promise of *Bioscience Connecticut*.

Please know we remain appreciative of the Governor's and the General Assembly's support of the University of Connecticut.

We would be happy to answer any questions.